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POLITICAL IMPLICATIONS OF GREECE'S FOREIGN INDEBTEDNESS

Description

An analysis of the bearing of foreign investments in Greece on the internal and external politics of the Greek state.

28 November 1944

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SUMMARY

Greece's foreign indebtedness is an important influence on the attitude of foreign powers toward Greek affairs, and on the balance and direction of political forces within Greece. As in the past, intervention of creditor governments in Greek affairs is likely to exacerbate Greek national feeling and provoke criticism by leftist and anti-capitalist elements.

Since 1824 Greece's foreign indebtedness has been contracted on terms disadvantageous to the Greeks. Failure of the Greek government to meet its obligations has resulted in an increasing measure of international financial control. From 1896/7 until the outbreak of World War II all Greek financial policies required the approval of an International Financial Commission. The Commission's activities were resented as an impairment of Greek sovereignty, carried on to the detriment of Greek interests.

Extensive British investment in Greece has caused Great Britain to be regarded -- and disliked -- as Greece's chief creditor. Greek liberals charge that the restoration of the King in 1935 was engineered by a monarchical clique in conjunction with international (British) financial interests which were concerned for the safety of their investments. The King's acceptance of the Metaxas dictatorship in 1936 is attributed to similar motives. These suspicions help to explain the present resentment of many Greeks toward the King and his British supporters.

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Greece's national debt in 1940 amounted to 92.9 billion drachmas, of which 71.4 billion drachmas was consolidated external debt. Chaotic financial conditions resulting from the war and Axis occupation preclude any computation of Greece's present indebtedness. The Under Secretary of Finance in the present Greek cabinet has called attention to the difficult position of Greece and similarly-situated countries, and recommended that the whole problem be given international attention. All observers agree that Greece's present economic situation demands outside assistance, and there is widespread popular expectation that the post-war settlements will provide an equitable solution of the foreign debt problem. Fulfillment of these expectations may help to ease the present political tension in Greece. Otherwise the debt is likely to remain as a source of friction between leftist and rightist Greeks and between Greece and the creditor nations.

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POLITICAL IMPLICATIONS OF GREECE'S FOREIGN INDEBTEDNESS¹

I. INTRODUCTION

A compelling question, solution of which is prerequisite to any settlement of Greek affairs, is the disposition of Greece's foreign indebtedness. Judging from past experience and present appearances, this question will strongly affect not only the attitude of foreign powers toward Greek affairs, but the balance and direction of political forces within Greece itself.

The security of foreign investments in Greece has influenced the attitude of creditor nations in the past, and has given direction to pressure exerted upon the Greek Government. At the same time, circumstances arising from foreign investments and the various manifestations of concern over them by the creditor nations have led to friction and ill-will within Greece. Some Greeks have gone so far as to say with reference to England, whose investments are predominant, that the British attitude of benevolence toward George II was prompted by his assurances that Greece's foreign obligations would be acknowledged, and that the present British distrust of EAM is based on the belief that a leftist regime would repudiate foreign obligations.

1. Among works found useful in the preparation of this paper the following may be mentioned: D. G. Antonopolou, La Dette publique hellénique; les sociétés anonymes en Grèce. Athens, Banque d'Athènes, 1922; James R. Mood, Public Debt of Greece. United States Department of Commerce, Trade Information Bulletin No. 321, February 1925; John A. Levandis, The Greek Foreign Debt and the Great Powers. New York, Columbia University Press, 1944 (contains a useful and up-to-date bibliography).

The history of Greek public finance readily explains how such suspicions might arise among Greeks. A recent student of that country's foreign borrowing describes as follows the process whereby interested powers have come to intervene in Greek affairs in the past:

The terms of the loan contracts with their tying clauses gave rise to transactions which might justly be called financial depredations. Practically all Greek loans, in spite of the many safeguards offered, were floated at 30% and often at 40% discount; their yields ranged from 5% to 8%, and interest and sinking fund charges were payable in gold. The acceptance by the borrowers of such onerous terms was due to urgent need. As a result the foreign debt was hastily and disadvantageously contracted. Most of the loan proceeds were appropriated to non-income-creating purposes and particularly to expanding debt charges which could not be met by an enfeebled Greek treasury. This eventually led to debt defaults. On such occasions the aggrieved creditors appealed to their respective governments, and demanded restitution through interference in the financial affairs of the borrowers. These interferences varied from simple interpositions to concerted diplomatic intervention which finally resulted in the imposition of an international financial control.¹

It is inevitable that the conditions under which Greece's foreign indebtedness was contracted and supervised should have affected Greek internal politics. The debt situation, with its international control mechanism, has been at once an affront to nationalistic feeling and a target for critics of domestic and foreign capitalism. At the present time, opposition to continuance of the old debtor-creditor relationship is particularly strong among Greek leftist elements, which have become the principal champions both of national independence and of far-reaching social and

1. Levandis, op.cit., p.ix.

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economic readjustments. Thus the Greek debt may be regarded as an important element in the present political conflict in Greece, the chief protagonists of which are the British on one side and the leftist EAM bloc on the other.

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II. GREEK FOREIGN INDEBTEDNESS, 1824-1944

A. Greece's Earliest Indebtedness

Greece's first foreign loan, contracted in 1824 while the struggle for independence from the Turks was in progress, set the pattern for subsequent loans in the motives and methods under which it was contracted, in its use, and in its eventual discharge. The loan was promoted by the combined pressure of a group of enthusiastic philhellenes and a group of financial brokers capitalizing on a wild wave of speculation -- against the advice of the British consul at Patras, who wrote: "Here on the spot... we know of no real security that can be given for the payment of the debt." The amount contracted for was £800,000, the price of issue was 59, and the rate of interest was 5 percent of the nominal capital, with a 1 percent annual sinking fund charge. The sum realized was £472,000, of which £123,000 was withheld for negotiation expenses and promoters' commissions, and for the interest and sinking fund charges for the two ensuing years. The total credited to the account of the Greek Provisional Government was thus only £348,000. All national domains were pledged for the repayment of this debt, and all revenues were assigned for its service.

In the following year a second loan was floated, at terms no more advantageous to Greece. Speculators were insatiable for such opportunities, and the promoters felt that fresh borrowings were a safeguard for their investments; part of the second loan, in fact, was used as a "manipulating fund," to support and steady the price of the bonds of the first loan when occasion demanded.

Authority over the expenditure of the borrowed moneys was assumed by a Board of Control composed of English bankers, over the vigorous but futile protests of Greek envoys. The Greeks had no recourse to international law, because their insurgent government had not yet been recognized. Upon gaining independence Greece acknowledged the indebtedness, but was unable to meet its terms or to persuade the bondholders to scale down either principal or interest. Its default excluded Greece from further borrowing, until a compromise could be reached. In 1878 the old bonds, with their accumulated interest, were exchanged for new ones at a sharply reduced rate.

B. The Guaranteed Loan and the International Commission

The loans made to the Greek Provisional Government by private persons were not properly a concern of western governments, but Greece's Protecting Powers were concerned in Greece's subsequent indebtedness. When Prince Leopold of Coburg was nominated to the throne of Greece in 1830 he made it a condition of accepting that the great powers participating in the London Conference should provide a guaranteed loan of 60,000,000 francs. When Leopold withdrew, the grant of a loan was embodied in the treaty of 7 May 1832 which established the sovereignty of Greece.

Certain articles of this treaty were construed to give the guaranteeing powers control of Greek revenues for the purpose of servicing the debt, a stipulation which proved both vexatious and dear for Greece. The proceeds of the guaranteed loan were largely

consumed by the army, the civil list, and a well-paid Bavarian bureaucracy, with very little applied to the improvement of the country's resources. The first two installments amounted to 40,059,930 drachmas, of which 23,847,962 was immediately deducted for various charges. The service of the loan was an extremely heavy burden; interest and sinking fund in the first ten years amounted to more than the entire third installment of some 20,000,000 drachmas.

Rivalries among the Protecting Powers prevented the free flow of assistance to Greece, and the threat of assuming direct control of Greek revenues was used by them as a political weapon to influence Greek policy. When, in the 1850's, the Greeks made an attempt to conquer Epirus and Thessaly from Turkey, the British and French reminded them of their unpaid debts; when the Greeks persisted, the Western Powers occupied Piraeus for three years, making no move to withdraw even after the conclusion of peace with Turkey. As a condition to withdrawing their troops, the British and French proposed to set up a Financial Commission at Athens, with extensive supervisory and administrative powers over Greek finances. The intervention of the Russians caused them to modify the plan and to set up instead an International Financial Commission of Inquiry, with advisory and recommending powers only, composed of the British, French, and Russian diplomatic representatives at Athens.

The activities of this Commission resulted in a scaling down of the service charges of the debt, so that in 1879 Greece could again appear in the money markets with a relatively clean slate. Huge accumulations of capital in Europe and the favorable terms of Greek issues -- high interest, assignment of specific revenues for service, payment in gold -- attracted lenders, even though Greece's agriculture and industry remained primitive and its expansionist aims consumed inordinate sums for the military establishment.

Between 1879 and 1890 six loans amounting to 630,000,000 gold francs were contracted. The proceeds, aside from insignificant sums for the construction of railway lines and public works, were consumed by the pyramiding charges of the public debt, by outlays for armaments, and by budgetary deficits; no less than one-third of the annual state receipts was preempted by the service of the debt. Between 1879 and 1897 (when international financial control was imposed) Greece actually paid in service charges an amount equal to what she received in loans, while the largest portion of the contracted indebtedness remained unliquidated.

C. The Imposition of International Financial Control

A continuous unfavorable balance of trade, and a crisis resulting from a collapse of the currant market, depreciated the drachma and rendered Greece incapable of meeting the service charges in 1893. Fruitless negotiations between the bondholders

(supported by their governments) and the Greek government continued until 1897, when war broke out between Greece and Turkey over the Cretan question. When the Turkish armies overran Thessaly and moved towards Athens, Greece appealed to the Powers to arrange an armistice, putting herself completely in their hands. The question of war indemnities brought on the question of Greece's ability to pay, which involved consideration by the Powers of Greece's past indebtedness. The upshot was that the Greeks agreed, with much bitterness, to the imposition of an International Financial Commission, with absolute control over the collection and employment of revenues sufficient for the service of the war indemnity loan and other national debts. A new loan, guaranteed by the Governments of England, France, and Russia, was floated on favorable terms to cover the indemnity.

The Commission, which continued to function until the outbreak of World War II, acted as a kind of official financial adviser to the Greek Government, and was expected to pass upon all of the Government's financial policies. All loans between 1896 and 1916 were issued only after authority had been given by the Commission. Treasury bonds could not be issued beyond the sum of ten million drachmas without the Commission's specific approval.

The Commission exercised its enormous powers (which could not be abrogated without its own consent) with exemplary sternness from the point of view of the creditors, but with little consideration

for the debtor. Surpluses were so manipulated that bonds purchased at 40 percent discount could be retired at par. Interest payments were exacted in gold long after other European powers had forced their own creditors to accept depreciated monetary units. The Commission has unquestionably been a stabilizing influence in Greek public finance. Nevertheless its activities have been resented on the ground that they constituted an impairment of Greek sovereignty, exploited to the detriment of real Greek interests.

For its own financial operations the Commission worked through a government corporation, the "Societe de Regie des Revenues affectes au service de la Dette Publique." It controlled revenues from the salt, kerosene, matches, Naxos emery, and playing card monopolies, the duty on tobacco, the stamp duty, and the Piraeus (customs) import duties. It continued to function up to the time of the Axis invasion in 1941.

Originally the Commission included British, French, Italian, German, Austrian, and Russian representatives. After World War I the representation was mainly British, French and Italian, with the British predominating. Hambro's Ltd. of London has for years been the official banker of the Greek Government, arranging and negotiating its various loans. British capital also had by far the largest role in financing various private enterprises in Greece, notably the National Mortgage Bank and the Chemical Products Company (both issued in sterling and guaranteed by the Greek Government), the Lake Cepais project, various magnesite and chrome mines, and the Athens electric

lighting and power project. The result is that, although specific figures are not available, Britain is looked upon as the chief creditor of Greece, and has been the object of the sentiments customarily entertained by hard-pressed debtors toward their creditors.

D. Subsequent Borrowing and the Crisis of 1932

Chronic current and other agricultural crises, precarious foreign relations that kept the country on the brink of war, and the need for currency stabilization and internal improvements kept Greece a desperately eager borrower. Loans continued to be contracted at high rates of interest, large discounts from par, and inordinate brokerage fees. Ten years of almost continuous conflict, terminated by the Treaty of Lausanne in 1923, and followed by the influx of over a million refugees from Asia Minor, left the Greek Government with a heavy debt.

Nevertheless, after 1914 the external debt increased only slightly. The Greek government's requirements were made up mainly by internal borrowing, which increased the fiduciary circulation, caused a heavy decline in exchange, greatly increased the cost of living, and reduced the purchasing power of the population. A forced loan of 50 percent of the currency in circulation and of bank deposits was made in 1922. Another forced loan of 25 percent of the currency in circulation was made in 1926. The investing public regarded Greek bonds as speculative, and after the financial crisis of 1930 and the moratorium of 1932 their value sank enormously. In Moody's Government and Municipal Securities for 1939

(the latest issue giving ratings for Greek bonds) most were rated B (speculative elements predominant) or C (almost purely speculative).

In 1932 the Government took drastic steps to improve the desperate situation. In April sinking fund payments on both the internal and external debt were suspended. Interest on the external debt was paid into a blocked account at the National Bank of Greece. Interest payments on the internal debt were reduced by 25 percent. Amounts from the blocked account were subsequently released, as a result of discussions between the Government and foreign bondholders, on a scale ranging from 30 percent on coupons dated up to 1932 to 43 percent for the fiscal year 1940-41. The so-called "Drachmefication Law," passed in July, required that all deposits of all foreign currencies in Greece be converted to drachmas at a nominal rate, far below the current market rates. All permanent residents in Greece, whether Greek or foreign subjects, and all deposits in Greece of Greeks or foreign subjects of Greek origin, were included in the provisions of the law. The cry of "confiscation" was heard, the British Foreign Office made representations, and the reputation of Greek government securities declined further. Nevertheless debt service payments still accounted for practically a third of government revenues.

E. Political and Financial Questions, 1935-44

The decision to restore the monarchy, taken in October 1935, has always been attributed by Greek liberals to the arbitrary action of a monarchical clique, in league with international interests who

were anxious to have in Greece a strong government, beholden to themselves, which would not allow Greece's external obligations to be tampered with. Popular sentiment against King George has in fact been based largely on the belief that he was brought back not as a King for the Greeks but as a custodian for foreign interests. His appointment of Metaxas as dictator in 1936 similarly is ascribed to his concern for these interests. Although there is no definite evidence either for or against these views, they help to explain the bitter resentment of many Greeks toward the King and his British supporters.

In June 1937 the Greek Government suggested to the League of Nations Committee on Loans and the Council of Foreign Bondholders a settlement providing for interest payments at 50 percent of the contractual rates. This offer was rejected. In January 1940 the Government, the Bondholders' Council, and the League Loans Committee reached an agreement by which the Government was to pay 43 percent of the contractual rate of interest.

The subsequent Axis occupation naturally prevented this reduced obligation, granted under pressure of war conditions, from being met. Nevertheless concern for the acknowledgment of Greece's foreign obligations in the post-war period undoubtedly remains.

In a pamphlet entitled The Truth About Greece, published by the Greek American Committee for National Unity in September 1944, Mr. Stelios Pistolakis, President of that Committee and member of the last Greek parliament and of the last Supreme Council of

Economics, writes: "I have incontestable information from London that even now the British Foreign Office, on behalf of the bondholders of the Greek debt, is demanding from the Greek Government that it continue to 'safeguard the rights and securities at present enjoyed by Greek external loans and to protect the general interests of the bondholders,' and 'maintain unchanged the rights, privileges and conditions of service which have applied to the Greek government loans since 1898.' "

III. PRESENT STATUS OF GREECE'S FOREIGN INDEBTEDNESS

A. Status of the Greek Debt since 1940

On 31 January 1940 the national debt of Greece amounted to 92.9 billion drachmas, of which 71.4 billion was consolidated external debt. On 30 September 1940 the national debt stood at 95 billion drachmas. Details are given in the following table:

Table 1. THE GREEK NATIONAL DEBT (1938-1940)¹

	March 31 1938 a/	March 31 1939 a/	Jan. 31 1940 a/	March 31 1938 a/	March 31 1939 a/	Jan. 31 1940 a/
	(000's)			(Drachmas 000,000's) b/		
Consolidated external						
Gold francs	908,679	904,084	899,371	32,713	34,355	40,473
Pounds	26,633	26,629	26,217	14,648	14,646	14,420
U.S. dollars	65,787	65,685	67,622	7,289	7,725	9,089
French francs	138,956	138,956	138,956	472	435	1,175
Gold marks	8,324	8,324	8,324	345	358	358
Leva	1,012,223	1,012,223	1,012,223	1,417	1,488	1,720
Florins	---	55,488	55,488	---	3,462	4,078
Swiss francs	115,594	---	---	4,161	---	---
Turkish pounds	1,940	1,940	1,940	175	183	204
Marks	17,467	14,943	12,010	725	620	517
Belgas	---	2,084	1,668	---	41	39
U.S. dollars	125	---	153	14	---	21
Pounds	---	78	92	---	43	51
Swedish crowns	---	---	177	---	---	6
Total				61,959	63,356	71,411
External floating						
Consolidated internal				790	839	928
Internal floating				12,152	13,815	14,890
Banque Agricole				1,163	367	370
Foreign debt arrears				160	150	160
				5,084	5,084	5,084
Grand total				81,308	83,621	92,908

a/ Including intergovernmental and war debts: 1937, Dr. 9,886,074,601; 1938, Dr. 9,834,651,365; 1939, Dr. 10,156,681,804; 1940, Dr. 11,155,889,282.

b/ Foreign currencies converted at rate of exchange as of date of settlement.

1. CID #47810, p.17.

The annual interest due on the public debt, the payments actually made on the debt, and the payments made by the International Financial Commission into the Bank of Greece for service on the foreign debt, were as follows during the years 1935-1940:

Table 2. INTEREST AND PAYMENTS ON THE PUBLIC DEBT, 1935-1940¹

	1935-36	1936-37 (Drachmas 000,000's)	1937-38	1938-39	1939-40
Interest due on debt	2,912	3,004	2,927	3,080	1,858
Payments made by Government for service on debt	1,845	1,856	2,127	2,194	a/
Payments made into Bank of Greece by the International Financial Commission for service on foreign debt	636	1,226	1,976	1,976	a

a/ Figure not available

The financial chaos induced by the occupation and the enormous occupation charges exacted by the Axis introduce tremendous complications into the calculation of Greece's present indebtedness. For the present purpose it is sufficient to emphasize that the debt still represents a heavy charge on the national budget and that its political significance, both internal and external, has in no way diminished.

B. A Greek Proposal for Debt Settlement

In July 1944 Professor Angelos Angelopoulos, an outstanding student of Greek economy and at present Under Secretary of Finance in the Greek cabinet, furnished to the representative of the United

1. CID #47810, p.15.

States Treasury in Cairo a proposed "Plan of the Financial Reconstruction of the Liberated Countries," dealing principally with the Greek situation. Under the rubric "The Settlement of the Pre-War Debts" Professor Angelopoulos calls attention to the difficult position of Greece and other similarly-situated countries and recommends that the whole problem be given international attention.

Since 1930, he writes, many countries, particularly those in Southeastern Europe, have encountered extreme budgetary difficulties, owing to the advent of the world economic crisis, and have frequently introduced partial moratoria on their public debts both internal and external. Amortizations have been postponed for the duration of the world crisis while no more than 20-40 percent of the annual interest due has been paid.

No difficulty arises from internal loans since the value of the national currency has often vanished with inflation. External loans present a real problem, however. If a final, sweeping solution to the problem, particularly those of the smaller countries, is not feasible, though highly desirable, there should be general acceptance of the following considerations. Loans concluded with foreign countries in foreign currency should be unified into a single loan for each country through conversion operations.

All such arrangements must consider:

- (a) the economic and financial situation of each country.
- (b) the fact that these loans, especially those of oldest date, were contracted with lending countries at high rates, issue below par, and with huge commissions to the banks or other agents employed. Of the nominal value of loans granted to Greece from the time of liberation until 1900, no more than 65% was actually received by the Greek Government.
- (c) that past loans have been largely used for unproductive purposes.
- (d) that the market value of the bonds representing such loans has long been far below par (approximately 30% of the nominal value during the period 1931-39) and many current holders of such bonds made their purchases at such low market values.

We should not forget that, for the small countries, a just settlement of foreign debts of long standing is enormously important to their financial and economic reconstruction, while to the great creditor nations, such as the United Kingdom and the United States, the financial aspects of this problem are insignificant when compared with war expenditures of today.

In examining post-war loan policy, it is essential to keep in mind the experience and mistakes of the past. Formerly, the major consideration influencing the international flow of capital was the difference in interest rates between the lending and the borrowing country.

The result of such loan policy was that the bankers granting those loans were interested only in their immediate profits, disregarding completely the employment of their loans. Thus, the loans were frequently used for purposes of consumption rather than production. Under such circumstances it is not at all strange that most of the debtor countries should be unable to meet their obligations and that so many bankruptcies occurred, particularly in the Balkans.

The present situation is immensely different. Borrowing countries realize their obligation to invest capital productively. It is now generally accepted that all regular and unproductive expenditures ought to be covered by taxation, while loans should be undertaken only for productive purposes. Even before this war, it had become recognized that credit operations should be effected through the mediation of organizations subject to Government controls rather than directly between borrowers and lenders. A broad acceptance of such procedure would be highly desirable,

The creation of an International Bank for the financial rehabilitation and development of the United Nations, of the type suggested by the Secretary of the Treasury of the United States, Mr. Henry Morgenthau, constitutes an indispensable international approach to the problems of old debts and to the provision to the liberated countries of the funds necessary for their financial rehabilitation and development.¹

1. CID #84733.

C. Current Greek Opinion

All observers agree that Greece's present economic situation demands outside assistance. Visible sources for either revenue or internal borrowing are practically non-existent. For immediate income the Government has been compelled to seek permission to sell relief supplies to those in a position to pay, and to import by air for sale on its own account commodities of small bulk and relatively high value. It has announced that high taxes will be imposed upon those who profited under the occupation, but it is doubtful how much revenue such taxation will yield. On the other hand, Government expenditures are continuing and growing. The Ministry of Labor, under leftist pressure, is called upon to disburse increasingly large sums to workers, whether or not they are productively engaged.

As in the case of Greek territorial claims, there is widespread popular expectation that the post-war settlements will provide an equitable solution for Greece's foreign debt problem. A number of individuals have unofficially expressed confidence that this will be the case, although the Government as such has refrained from making specific suggestions. In the matter of territorial questions there is a substantial measure of agreement among Greek parties on the compelling nature of Greek claims. In the matter of debt, on the other hand, it is to be expected that the leftist parties, which have been in the ascendant, will press for more drastic revision than the conservative, and

specifically the royalist, parties. It may be significant that in the coalition Government the Secretary and Under Secretary of Finance, Professors Svolos and Angelopoulos respectively, are members of leftist organizations and represent EAM, while Porfirogenis and Zevgos, Secretaries of Labor and Agriculture respectively, in whose hands is the satisfaction of popular demands for subsistence, are Communists.

Fulfillment of the present Greek hopes for a modification of the debt situation may help to ease the tension inherent in the present alignment of political forces. If, however, these hopes are disappointed, the debt is likely to remain a source of friction between leftist and rightist Greeks and between Greece and the creditor nations.